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R 051141Z MAY 08
FM AMEMBASSY HARARE

TO RUEHC/SECSTATE WASHDC 2865
RUCNSAD/SOUTHERN AF DEVELOPMENT COMMUNITY COLLECTIVE
RUEHUJA/AMEMBASSY ABUJA 1953
RUEHAR/AMEMBASSY ACCRA 1962
RUEHDS/AMEMBASSY ADDIS ABABA 2084
RUEHRL/AMEMBASSY BERLIN 0636
RUEHBY/AMEMBASSY CANBERRA 1361
RUEHDK/AMEMBASSY DAKAR 1718
RUEHKM/AMEMBASSY KAMPALA 2140
RUEHNR/AMEMBASSY NAIROBI 4571
RHEHAAA/NSC WASHDC
RHMFIS/EUCOM POLAD VAIHINGEN GE
RUEHGV/USMISSION GENEVA 1223
RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK
RHEFDIA/DIA WASHDC

UNCLAS SECTION 01 OF 03 HARARE 000397

SIPDIS

AF/S FOR S.HILL
ADDIS ABABA FOR USAU
ADDIS ABABA FOR ACSS
NSC FOR SENIOR AFRICA DIRECTOR B.PITTMAN
TREASURY FOR D.PETERS AND T.RAND
STATE PASS TO USAID FOR L.DOBINS AND E.LOKEN
COMMERCE FOR BECKY ERKUL
CIA WASHDC

SIPDIS

E.O.12958: N/A

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SUBJECT: Zim Notes 5/2/2008

11. SUMMARY

Topics of the week:

- Presidential Election Results Still Pending
- MDC Reconciliation
- Violence Continues
- Winter School Term Begins
- Ambassador Warns Perpetrators of Violence
- SADC Tribunal Sets Date To Hear White Zimbabwean Farmers' Case
- HIFA 2008 Kicks Off
- RBZ Governor Liberalizes Exchange Rate
- Rate Of Inflation Reaches Half Million Percent
- Tobacco Auctions Start
- Gold Production Falls Further
- Poor Start to Winter Wheat Season

12. Price Movements-Exchange Rate and Selected Products

Parallel rate for cash ZW\$120 million:US\$1

Bank transfer rate shot to: Z\$220 million
Interbank determination of "official" exchange rate re-introduced
(under clarification)

Sugar fell to Z\$350 million/2kg vs. controlled price of
Z\$8million/2kg

Cooking is steady at Z\$350 million/750ml vs. controlled price of
Z\$9.3million/750ml

Petrol and diesel rose to Z\$160 million/liter vs. controlled price of Z\$60,000/liter

On the Political/Social Front

¶3. Presidential Election Results Still Pending... Over four weeks after elections, the Zimbabwe Electoral Commission (ZEC) has begun verification of presidential election results. The process is expected to take several days. The Herald reported that Tsvangirai will be announced the winner with over 47 percent of the vote. After results are announced, the ZEC will presumably set a date for a runoff election within 21 days. The MDC, claiming that Tsvangirai in fact won over 50 percent of the vote (obviating the requirement for a runoff), and noting that the current climate of violence would make an election difficult, if not impossible, has indicated it will not participate in a runoff.

¶4. MDC Reconciliation... Despite media reports to the contrary, the two factions of the MDC have not reunited. In a diplomatic briefing this week, Welshman Ncube, Mutambara faction secretary general, stated that his faction would back Tsvangirai if a runoff is held. Further cooperation would be subject to negotiation.

¶5. Violence Continues... ZANU-PF-directed violence continues unabated throughout Zimbabwe. To date, approximately 15 people have been killed, over 120 persons admitted to hospitals, and over 500 persons have received treatment. There are increasing reports of the authorities preventing victims accessing treatment.

¶6. Winter School Term Begins... In addition to pervasive

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psychological and physical trauma inflicted on ordinary Zimbabweans, The Financial Gazette reported this week that a number of schools had failed to open due to intimidation and violence against teachers. Many teachers served as ZEC supervisory officials in polling stations. In addition, hyperinflation has rendered the March salary increases for teachers meaningless. The Ministry of Education and many school heads have appealed to anyone with O level or A level passes to apply to be temporary teachers to relieve the shortage. This year's O level examination results saw a sharp decline in the country's pass rates in all subjects.

¶7. Ambassador Warns Perpetrators of Violence... Ambassador McGee told the press this week that senior army officers deployed in the 10 provinces and whose names featured repeatedly on affidavits of victims of violence would be closely watched. "We are looking and taking note of the people responsible for the violence. Out of the 500 cases that I have seen, only one has been attributed to the MDC as aggressor. We have affidavits; we have the names of the perpetrators. We know the perpetrators and there will be justice at the end of the day." Thursday's The Financial Gazette gave front-page coverage to the story.

¶8. SADC Tribunal Sets Date To Hear White Zimbabwean Farmers' Case... The case before the Southern African Development Community (SADC) Tribunal in which white former commercial farmers are seeking to halt compulsory land acquisition in Zimbabwe is set to resume in Windhoek on May 28. In late March the Tribunal granted the farmers interim relief against eviction, however it did not protect them from a new spate of post-election farm invasions.

¶9. HIFA 2008 Kicks Off... The Harare International Festival of the Arts (HIFA) 2008, "The Art of Determination," kicked off this week before an audience of several thousand with a politically charged opening that attacked President Mugabe (and got away with it). Other performances range from popular music to opera and drama; several shows have political components. Also of note was a reading by Zimbabwean author Peter Godwin who has been barred from entering the country for years. His sister Georgina, also in exile for starting an independent radio station, returned as well to co-present some shows. HIFA continues through Sunday with dozens of performances by artists from around the world.

¶10. RBZ Governor Liberalizes Exchange Rate... In his 2008 First-Quarter Monetary Policy Statement (MPS) on April 30, Reserve Bank of Zimbabwe (RBZ) Governor Gono partially liberalized the exchange rate by introducing a "willing buyer-willing seller" concept to be administered by authorized dealers, and depending on a priority list determined by the RBZ. While not equivalent to adopting a fully-fledged floating system, it is likely to make exporting more profitable in Zimbabwe dollar terms. In addition, Gono raised the RBZ's accommodation rates to control credit creation. However, the quasi-fiscal activities of the central bank in the form of deeply subsidized BACOSSI and ASPEF funding for industry and agriculture, as well as the introduction of a Z\$300 trillion Strategic Products Price Controls Mitigation Fund, will continue to fuel money supply growth and, with it, inflation. Reflecting this, the stock market soared to new heights this week.

¶11. Rate Of Inflation Reaches Half Million Percent... The April y-o-y inflation figures of a leading local supermarket chain ranged from 490,000-500,000% for food, 535,000% for clothing and textiles, and 610,000% for house wares.

¶12. Tobacco Auctions Start... At mid-week, the tobacco auction floors finally opened after government awarded farmers a generous

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support price for every US dollar earned. Rodney Ambros, CEO of the Zimbabwe Tobacco Association, told us that the MPS was also a shot in the arm for the industry. Banks were seeking to clarify details of the new exchange rate regime, but the industry expected a "viable package" of both support price and flexible exchange rate that would cushion against hyperinflation; they also welcomed the extension of deeply subsidized ASPEF funding into the next growing season. The RBZ still has not settled its forex arrears to the growers but Ambros said farmers would deliver their crop on good faith and quickly, as most of them had commercial bank overdrafts to pay off, and the RBZ had never failed to eventually meet its payment obligations to tobacco growers. Ambros estimated this year's crop at 70 million kg. In 2007, the tobacco crop (63 million kg) made up 17% of export shipments, according to the RBZ, down from 18% in **¶2006**.

¶13. Gold Production Falls Further... The Herald reported figures from the Chamber of Mines this week that showed gold production at a record low level of 295.7 kg in March, down from 746.8 kg in the same month last year. Publicly traded Falgold Zimbabwe issued a lackluster report for 15 months to December 31, 2007 reflecting shrinking production, spiraling inflation, power outages, frequent breakdowns, and an unviable exchange rate; the company is carrying out minimal exploration. The RBZ's failure to release US dollar revenue to gold producers is a major constraint on production.

¶14. Poor Start to Winter Wheat Season... A shortage of inputs in all provinces is hindering preparation for the winter wheat crop, according to the FAO-supported Agriculture Coordination Working Group. The Ministry of Agriculture has set a target of planting 70,000 ha, but as of April 24, only 1,350 ha had been prepared and 350 ha planted. The recommended timeframe for wheat planting is mid-April to mid-May. The Working Group reported seed availability at 7,900MT against a requirement of 7,000MT; 7,000MT of compound D fertilizer was available against a requirement of 35,000MT (20%) and about 3,000MT of top dressing was on hand against a requirement of 28,000MT (11%).

The Working Group also reported on the second round of a national crop and livestock assessment undertaken by the Ministry of Agriculture. The summer crop harvest was drastically reduced by poor rainfall distribution. Maize seed was available late, and there were critical shortages of fuel, fertilizers, chemicals and labor throughout the season. Highlights:

- The maize production was 49% of last season's production.
- Small grains production was 78% of last season's production.
- Maize and small grains production is enough to cover 28% of national requirements.

--The national average maize yield was the lowest recorded since

¶1980.

--The highest yield was recorded among large-scale commercial farmers; average yield in the communal areas was less than 1/10th of the large-scale commercial farmers' yield. The Working Group concluded that unless the macro-level issues of poor timing, centrally-controlled markets, and an environment of limited resources are addressed and resolved, the same problems are likely to occur in the next growing season.

MCGEE